

**PREFILED TESTIMONY OF  
CHRISTOPHER P.N. WOODCOCK  
ON BEHALF OF KENT COUNTY WATER AUTHORITY  
RE: PROVIDENCE WATER SUPPLY BOARD  
DOCKET NO. 3446**

Q: What is your full name and address?

A: My name is Christopher P.N. Woodcock and my business address is Woodcock & Associates, Inc., P.O. Box 118, 70 Boston Post Road, Wayland, MA 01778.

Q: Are you the same Christopher Woodcock that has prefiled before this Commission in other rate filings?

A: Yes I am. Because I believe the Commission and other parties in this case are well aware of my background and experience, I have not included that information in this filing. However, I would be glad to provide it if requested.

Q: What is the purpose of your testimony in this docket?

A: The purpose of my testimony is to comment on the Abbreviated Rate Filing by the Providence Water Supply Board, particularly as it impacts my client, the Kent County Water Authority, and other wholesale customers. In this case Providence Water has proposed an across the board increase to all rates and charges. While Mr. Kilduff's June 28, 2002 cover letter suggests a 12.99% increase in revenues, the proposed rates in the filing are proposed to increase closer to 13.4%. Wholesale rates would increase from the current \$1,017.00 per million gallons to \$1,153.12 per million gallons – an increase of 13.4%.

Q: Do you believe that Providence Water has complied with the requirements for an Abbreviated Filing under the Commission's Rules of Practice?

A: No I do not believe they have complied. Clearly there were Commission directives (Item 2.10{c}[5]) that were not completed, including the study of City Services expenses (see KCWA 2-1) and providing the wholesale customers with the alternative supply study (see KCWA 2-3). I believe these were an inadvertent oversight by Providence Water and it would be rather harsh for the Commission to throw out this case on such technicalities. However, I am concerned that Providence has included expenses that are not proper for an Abbreviated filing such as general inflation for items and estimated capital projects with no substantiation. I do not believe the Commission should allow for these types of adjustments that are more proper for a full rate filing.

Q: Do you agree with the increases proposed by Providence?

A: No I do not. I believe some of the proposed increases should not be allowed. Mr. Spinelli on page 2 of his testimony testifies that the abbreviated filing is intended to "cover known and measurable increases in costs". I believe some of the increases

1 are not known and measurable as required by the Commission's Rules of Practice  
2 for an abbreviated filing.

3  
4 While I agree with Mr. Spinelli that an Abbreviated Filing should be quicker and less  
5 complex, it should be used as intended under the Commission's Rules of Practice  
6 and should not be used for increases that are more appropriate for a full rate filing.

7  
8 Q: What are the items that Providence Water has proposed to increase in this filing?

9 A: According to Mr. Spinelli the bulk of the increase is related to salaries and wages,  
10 employee benefits and property taxes, with an additional allowance for maintenance  
11 of the sludge lagoons. He indicates that there is no requested increase in the re-  
12 stricted funds at this time.

13  
14 Based on my review I believe that the salary costs are overstated, and that as a re-  
15 sult, some increase in benefits may also be overstated. I believe that the increases  
16 in Property Taxes that are proposed by Providence Water are not known and meas-  
17 urable. I also believe that in effect that Providence has requested an increase in its  
18 restricted funding by including a substantial increase in capitalized labor costs, some  
19 of which are related to the IFR program. While not specifically mentioned by Mr.  
20 Spinelli, Providence is also seeking an increase in regulatory costs related to this  
21 rate case – again an item that is not known and measurable; and Providence is  
22 seeking an adjustment in chemical costs that I believe is incorrect. Lastly, I don't  
23 believe the Commission should continue to fund the requested amounts for City  
24 Services in the absence of the study that was required in the Commission's last Re-  
25 port and Order.

26  
27 Q: Please explain your proposed adjustment to the salary and wage costs.

28 A: The proposed rate year is January 1 – December 31, 2003 (Bondarevskis Testi-  
29 mony, pg. 4, line 29-30). In response to KCWA data request 1-12 (attached) Provi-  
30 dence Water has admitted that the 8.16% salary and wage increase over the calen-  
31 dar year 2001 amounts is incorrect. The first 4% increase applies for half the rate  
32 year and the second 4% increase (8.16% compounded) applies for only the second  
33 half of the rate year. In effect, the salary and wage items are overstated by 2.08%.  
34 Accordingly, I believe that all salary and wage items should be reduced by 2.08%  
35 based on the response to KCWA 1-12.

36  
37 Because items on Providence Water Schedule F are related to the proposed 8.16%  
38 salary increase that was proposed, they too should be reduced. The two items that  
39 appear to be related to this are items (6) "FICA" and (7) ½% Wage Assignment". I  
40 have reduced these two items by 2.08% as well.

41  
42 Q: Do you agree with the amount Providence has claimed for debt service and funding  
43 related to the Western Cranston System?

44 A: No I do not. First, Providence has indicated that impact fees are charged by Cran-  
45 ston and turned over to Providence Water (Commission Date Request 2-5). I don't

1 believe these revenues are reflected in the filing anywhere and they should be. I  
2 have been unable to make a specific adjustment, as we have not been told what  
3 these revenues are. Further, it is clear that the debt service has dropped since the  
4 last rate case (see response to KCWA 1-11). Providence Water is seeking the full  
5 \$150,000 while admitting that the amounts are not needed. They indicate that they  
6 intend to use the extra funds for capital projects. There is no documentation as to  
7 what these projects are, if they are IFR related, or even if they are needed. Perhaps  
8 most importantly, this new capital funding is not a proper item to include in an ab-  
9 breviated filing. Providence has chosen to file an abbreviated case and should not  
10 be allowed to slip new costs in that should be only included in a full rate case. Ac-  
11 cordingly, I recommend that the \$87,931 shown as "cash funding" on Schedule B-1  
12 be disallowed until such time that Providence (a) details what the expenses are, (b)  
13 provides substantiation for the project(s), (c) determine what is IFR related, and (d)  
14 provide information on the impact fee revenues that perhaps can be used for some  
15 of these costs.

16  
17 Q: Providence has also asked for continued funding of \$150,000 per year for the alter-  
18 native supply study. Do you agree with this?

19 A: No I do not. In the prior docket the Commission provided funding for a \$300,000  
20 study that was specifically spread over two years (see Schedule TSC-13 in Docket  
21 No. 3163 filed by the Division Witness, Mr. Catlin, in support of the settlement).  
22 Providence should not be allowed to continue this funding when the two-year period  
23 it was authorized for would clearly be over prior to the rate year in this filing. In ef-  
24 fect, Providence is asking for new capital funding for these studies. This is not an  
25 appropriate item for an abbreviated filing. If Providence wishes more funds for fur-  
26 ther or longer term studies it should request them in a full rate filing – it was Provi-  
27 dence Water's choice to file an abbreviated filing.

28  
29 Q: Have you proposed an adjustment for some treatment costs?

30 A: Yes I have. In response to Div 1-19 Providence has corrected the amount they re-  
31 quested for chemicals and I have reflected this in my schedules. In that same re-  
32 sponse they indicated that the \$25,000 license fee paid to the state was included  
33 twice. I have reduced the miscellaneous expense item by \$25,000 to reflect that  
34 double counting.

35  
36 Q: In looking at Schedule B-1 submitted by Providence, there appears to be a large in-  
37 crease in the last item under Equipment Replacement Fund – Cash Funding. It is  
38 proposed to increase to \$543,469. Do you agree with this?

39 A: I do not. Certainly it is appropriate to include adjustments to bond payments or  
40 lease payments in an abbreviated rate filing. In this case there are some rather  
41 substantial reductions shown for the rate year. Just because the Commission al-  
42 lowed \$1.1 million for all these items in the last docket does not mean that it should  
43 continue to allow funding of \$1.1 million with no substantiation. In the case of the  
44 Equipment Replacement Fund there are substantial lease reductions – in fact every  
45 single item has decreased from CY 2001 to the rate year CY 2003. Providence has

1 simply made up the difference or reduction by increasing the amount it is to be al-  
2 lowed for "cash funding". I do not know what this is for, nor do I believe it is proper.  
3 At a minimum, the Commission should set the cash funding back to the level author-  
4 ized in the prior docket – \$ 332,208.

5  
6 Q: Do you agree with the \$1,545,228 in CIP Debt that Providence has proposed on  
7 Schedule B-1?

8 A: No I do not. In reviewing Schedule B-1 and the response to KCWA 1-5 it is clear  
9 that some of the payments are still estimates and not known and measurable.  
10 However, it also seems clear that Providence is obligated to pay these bonds and  
11 the final amounts are just not known with full certainty at this time. In reviewing  
12 schedule B-1 it is clear that the debt service in FY 02 and FY 03 is less than \$1.5  
13 million. In FY 04 and FY 05 the debt service is projected to be average about \$1.5  
14 million. For this item I recommend that the Commission only allow \$1.5 million in  
15 debt, as this appears to be the typical amount due.

16  
17 Q: What do you propose for the Cash Funded IFR in place of the \$9,208,782 proposed  
18 by Providence Water?

19 A: Providence Water has been granted IFR funding for \$12,500,000 by the Public Utili-  
20 ties Commission. To my knowledge they have not filed a new IFR report with the  
21 Department of Health or with the Commission. They have not asked the Commis-  
22 sion to provide more funding for IFR projects. Yet with this filing they are greatly in-  
23 creasing the amount they propose to spend on capital projects without any evidence  
24 of its need or what it may be for.

25  
26 In the prior docket Providence was allowed \$524,739 for capitalized labor. In this  
27 docket they are now seeking \$905,264 – more than a 75% increase! As stated in  
28 response to KCWA 2-02, most of the capitalized labor is "IFR related". In this ab-  
29 breviated filing Providence has proposed an enormous increase (over 75%) in its  
30 capitalized labor costs that are primarily IFR related, yet has made no adjustment for  
31 the \$12.5 million of IFR costs it has been authorized to spend. In effect, by simply  
32 increasing its capitalized labor accounts, Providence is increasing the amount it will  
33 spend on IFR projects.

34  
35 I propose that the item labeled Cash Funding under CIP on Schedule B-1 be re-  
36 duced from \$9,208,782 (after "rounding adjustment") so that the total of the cash  
37 funded IFR work, IFR debt (\$3,291,218), and capitalized labor (\$886,435 after ad-  
38 justing for the proper increases) equal the \$12.5 million authorized for IFR spending  
39 by the Commission. This would mean that the cash funded IFR should be  
40 \$8,322,347. I have accordingly recommended an adjustment to this item.

41  
42 Q: Do you propose any adjustments to Property Taxes?

43 A: Yes I do. An abbreviated filing should only include adjustments for known and  
44 measurable changes – general inflation adjustments are not allowed under the  
45 Commission's Rules of Practice.

1  
2 Providence has proposed property tax expenses based on inflation adjustments us-  
3 ing past years. The total they propose is \$5,700,043.  
4

5 Based on the response to Division data request 1-10 the actual FY 2003 property  
6 tax bills (for the year starting this July 1) are \$5,497,870. These are the most recent  
7 known and measurable amounts. I do not believe the Commission should authorize  
8 more than this.  
9

10 Q: Do you propose an adjustment to the City Services Expense?

11 A: Yes I do. Providence was required to re-evaluate the City Services expenses as  
12 part of the stipulation in the last docket. In response to KCWA 2-1 Providence ad-  
13 mits that it has not done this and claims that it is just asking for the amount author-  
14 ized in that last docket.  
15

16 Clearly Providence has not completed the analysis that was required. There were  
17 issues with the last study that should have been resolved with this filing. They were  
18 not. Providence Water should not be allowed to just ignore this. I suggest that the  
19 Commission only allow \$729,994 – the amount presented on Providence Water's  
20 Schedule I for the fiscal year ending 6/30/01 – the last available year at the time of  
21 the filing. Further, Providence should not be allowed to update this for the year that  
22 ended June 30, 2002 because of its failure to complete the required study. Lastly, I  
23 suggest that the Commission go on record that the FY 2001 amount or less will be  
24 used until Providence Water files the required study in its next rate filing (general or  
25 abbreviated) to the Commission's satisfaction.  
26

27 Q: Are there other expense adjustments you propose?

28 A: Providence has requested an increase in its operating revenues (the 1.5% allow-  
29 ance). While I support this allowance for a general filing, I suggest that the amount  
30 allowed in the previous docket be allowed in this abbreviated filing. I don't see a  
31 provision for an adjustment to this allowance in the Commission's Rules of Practice.  
32 I believe the last allowed operating allowance was \$591,111.  
33

34 I have proposed a \$60,000 reduction in the regulatory expenses requested by  
35 Providence. Half of this is for the estimated Commission expenses per the re-  
36 sponse to Commission data request 1-15. This is an estimated cost and should not  
37 be allowed under the Rules of Practice for an abbreviated filing. I also reduced this  
38 item by another \$30,000 to spread the cost of this case over two years rather than  
39 recover it all in one year.  
40

41 Also, it seems that there may be a one-time expense in the Administrative Contract  
42 Services – Financial for the Oracle System. I have yet to get a response from  
43 Providence on a late data request we submitted. I believe this one time cost should  
44 also be deducted.  
45

1 I have yet to see the Division's testimony in this case however, and may agree to  
2 further modification s upon seeing that and/or any reply testimony from Providence  
3 Water.

4  
5 Q: Do you agree with the sales values and numbers of meters and fire services pro-  
6 posed by Providence Water?

7 A: I have adjusted the wholesale sales based on the responses to DIV 1-24. I have not  
8 adjusted the number of meters, but had understood there were some monthly ac-  
9 counts. If this were correct it would make a difference in the revenues at the current  
10 rates as well as the proposed rates. We were late with this data request however  
11 and have yet to receive a response at the time my testimony was prepared. I have  
12 adjusted the number of public fire hydrants based on the response to KCWA 1-25.

13  
14 Q: Based on the adjustments you have proposed, what increase do you recommend?

15 A: As shown on the attached schedules, the increase I recommend is about 7.6%.  
16 Providence Water has asked for additional revenues of \$5,448,798. In this abbrevi-  
17 ated filing I believe that only \$3,114,565 can be justified.

18  
19 Q: Does this conclude your testimony?

20 A: Subject to any changes that may subsequently be brought to my attention, yes it  
21 does.